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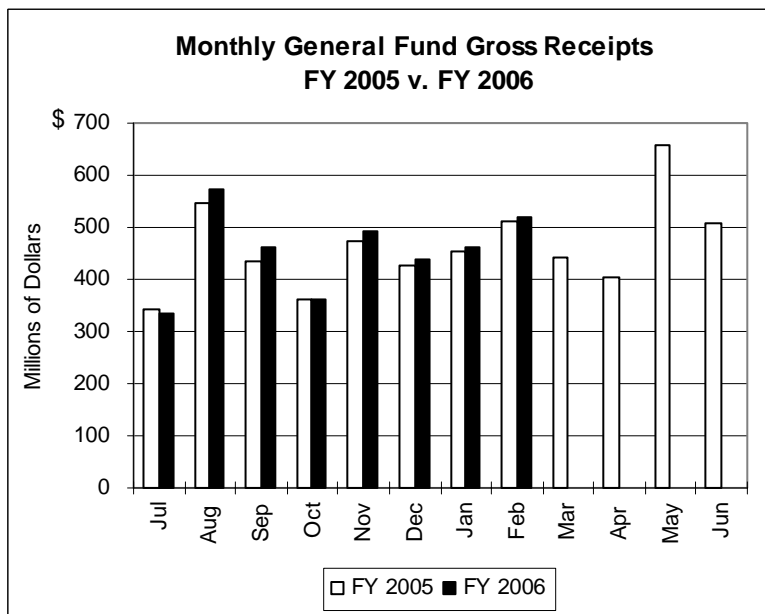
ADMINISTRATIVE SERVICES  
 TIMOTHY C. FALLER

## MEMORANDUM

TO: Members of the Iowa Senate and  
 Members of the Iowa House of Representatives  
 FROM: Dennis C. Prouty  
 DATE: March 1, 2006

### Monthly General Fund Receipts February 28, 2006

The attached spreadsheet presents year-to-date FY 2006 General Fund receipts, with comparable figures for actual FY 2005. The figures can be compared to the FY 2006 estimate of \$5.650 billion set by the Revenue Estimating Conference (REC) on December 12, 2005. The FY 2006 estimate is an increase of \$81.4 million (1.5%) compared to actual FY 2005 gross cash receipts (excludes refunds, transfers, and accrued revenue changes). The next meeting of the Revenue Estimating Conference is scheduled for March 24, 2006.



### FY 2006 Compared to FY 2005

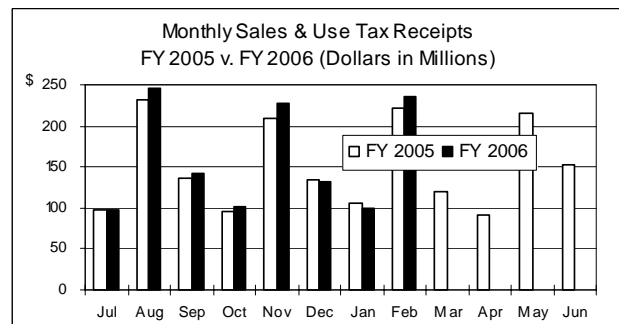
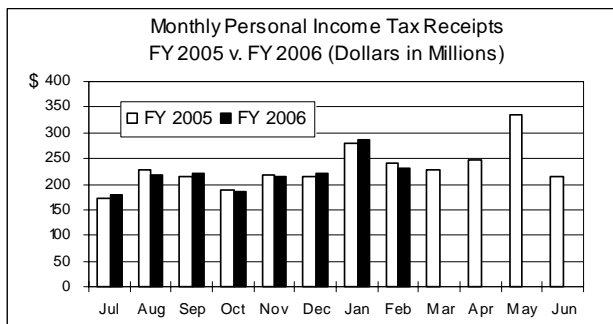
Fiscal year to date, total gross cash receipts increased \$87.9 million (2.5%) compared to FY 2005. Major revenue sources contributing to the change include:

- Personal income tax (negative \$3.7 million)
- Sales & use tax (positive \$48.3 million)
- Corporate tax (positive \$21.5 million)
- Other taxes (positive \$19.4 million)
- Other receipts (positive \$2.6 million)

**Personal income tax** revenues received in February totaled \$230.1 million, a decrease of \$11.4 million (- 4.7%) compared to February 2005. February 2006 income tax revenue was negatively impacted by a tax processing issue. Approximately \$18.0 million in withholding tax revenue that should have been deposited in February was not deposited until March 1.

The State lowered income tax withholding table rates effective April 1, 2005. The first day the change could impact receipts was April 26, 2005. Withholding tax deposits have shown negative growth since April 26<sup>th</sup>, decreasing \$45.8 million (- 2.4%) through February. Adjusting for the withholding issue mentioned above, the reduction since April 26<sup>th</sup> is \$27.8 million. Revenue Estimating Conference projections call for a reduction of \$144.2 million between April 26 and February 28 as a result of the table changes. Adjusting for that amount of reduction, the base withholding receipt growth since April 26 is positive 5.6%. This is a substantial improvement from the previous month.

The FY 2006 REC income tax estimate of \$2.812 billion represents a projected increase of 1.1% compared to actual FY 2005. Year-to-date, total income tax receipts have decreased 0.2% (positive 0.8% when adjusted for the withholding issue). By subcategory, withholding tax payments decreased 1.8% and income tax estimate payments increased 8.9%. Payments with returns have increased for the year, but are not a significant revenue source through February. The following chart compares FY 2006 monthly personal income tax receipts from all three personal income tax subcategories with FY 2005.



**Sales/use tax** receipts received in February totaled \$236.7 million, an increase of \$14.3 million (6.4%) compared to February 2005. February 2006 sales/use tax revenue was negatively impacted by a tax processing issue. Approximately \$21.0 million in sales/use tax revenue that should have been deposited in February was not deposited until March 1.

The REC estimate for FY 2006 sales/use tax receipts is \$1.873 billion, an increase of 3.3% compared to actual FY 2005. Year-to-date, sales/use tax receipts increased 3.9%. Adjusting for the processing issue, sales/use tax revenue increased 5.6%. The preceding chart compares FY 2006 monthly sales tax receipts with FY 2005.

**Corporate tax** receipts received in February totaled \$12.1 million, a \$0.5 million decrease (- 4.0%) compared to February 2005. The REC estimate for FY 2006 corporate tax revenue is \$311.4 million, which represents an increase of 10.9% compared to actual FY 2005. Year-to-date, corporate tax revenue has increased 14.2%.

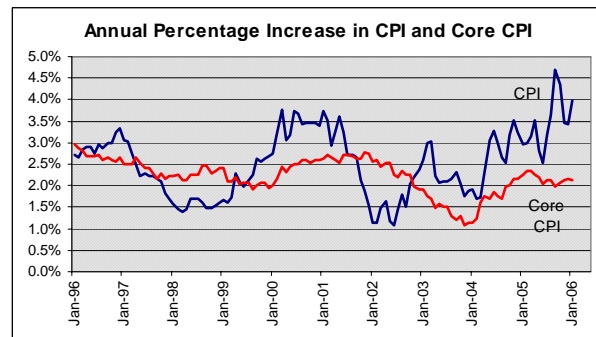
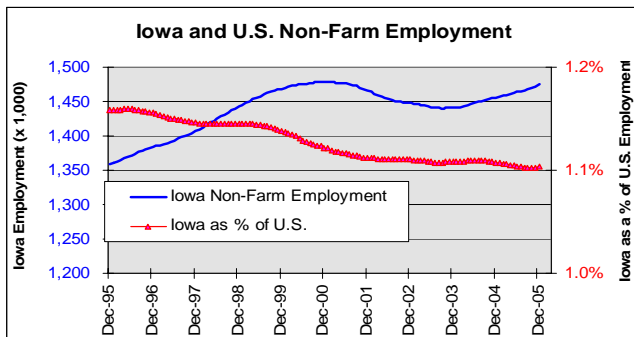
**Other tax** receipts received in February totaled \$15.8 million, a \$2.7 million decrease (- 14.6%) compared to February 2005. An insurance tax receipt decrease was partially offset by increases in inheritance and cigarette tax revenue. The REC estimate for FY 2006 receipts from other taxes is \$347.9 million, which represents a decrease of 2.1% compared to actual FY 2005. Year-to-date, other tax receipts have increased 11.2%. The large increase is the result of insurance premium tax changes currently being phased-in over several years. The tax rate is being lowered from 2.0% to 1.0%, while the timing of the payments is modified. This results in larger payments due in August and a reduction in payments due in March and June.

**Other receipts** (non-tax receipts) received in February totaled \$23.5 million, a \$5.2 million increase (28.4%) compared to February 2005. Interest income and judicial revenue increased for the month. The REC estimate for FY 2006 other receipt revenue is \$306.4 million, which represents a decrease of 9.3% compared to actual FY 2005. Year-to-date, other receipts have increased 1.1%. Further FY 2006 transfers from the Unclaimed Property Fund could result in other receipt revenue in excess of the REC projection for that revenue source.

### Status of the Economy

Iowa and U.S. non-farm employment numbers for January have not been released. The January numbers are always delayed as each state employment agency "benchmarks" the previous year's information. The January numbers are scheduled for release March 2.

The 12-month Iowa moving average employment is presented in a graph below. Iowa non-farm employment (12-month average) peaked at an all time high in January 2001 (1,478,700), and the recent low was October 2003 (1,439,900). The current 12-month average reading is 1,474,200, so annualized Iowa non-farm employment is roughly 4,500 below the peak and 34,300 above the recent low point. The chart below also presents Iowa non-farm employment as a percent of U.S. non-farm employment. Iowa's share of national non-farm employment has been decreasing since the mid-1990's.



Consumer prices increased 0.8% during the month of January (not seasonally adjusted). The Consumer Price Index (CPI-U) through January 2006 was 198.3 (1983/84=100), 4.0% higher than one year ago. Core CPI, an inflation measure that excludes food and energy prices, increased 0.2% during January and the year-over-year change was 2.1%. The core inflation rate has generally declined since the early 1990's. The graph shows that although the full measure of inflation has accelerated significantly since March 2004, the Core CPI rate has remained well within normal bounds.

Information related to State General Fund receipts is available on the Fiscal Services Division's web site at: <http://staffweb.legis.state.ia.us/lfb/receipts/daily.html>.

GENERAL FUND RECEIPTS - FY 2005 vs. FY 2006 July 1 through February 28 (in millions of dollars) Dollars may not add due to rounding. Percentages Calculated on Rounded Numbers					ESTIMATED GENERAL FUND RECEIPTS (in millions of dollars) FY 05 Actual Compared to FY 06 REC Estimate		
	FY 2005	FY 2006	Year to Date % Change	February % Change	Actual FY 2005	Estimate FY 2006	Projected % Change
Personal Income Tax	\$ 1,757.8	\$ 1,754.1	-0.2%	-4.7%	\$ 2,782.3	\$ 2,811.9	1.1%
Sales/Use Tax	1,234.1	1,282.4	3.9%	6.4%	1,812.3	1,872.7	3.3%
Corporate Income Tax	151.5	173.0	14.2%	-4.0%	280.9	311.4	10.9%
Inheritance Tax	52.6	49.0	-6.8%	12.2%	78.4	70.9	-9.6%
Insurance Premium Tax	27.0	50.6	87.4%	-72.0%	130.9	128.3	-2.0%
Cigarette Tax	56.6	58.5	3.4%	10.0%	87.4	89.1	1.9%
Tobacco Tax	5.7	5.9	3.5%	16.7%	8.7	8.9	2.3%
Beer Tax	9.5	9.7	2.1%	11.1%	14.0	14.3	2.1%
Franchise Tax	20.4	18.8	-7.8%	33.3%	35.4	35.4	0.0%
Miscellaneous Tax	1.7	0.4	-76.5%	-75.0%	0.6	1.0	66.7%
 Total Special Taxes	 \$ 3,317.0	 \$ 3,402.4	 2.6%	 -0.1%	 \$ 5,230.9	 \$ 5,343.9	 2.2%
 Institutional Payments	 8.2	 8.6	 4.9%	 30.0%	 12.7	 12.4	 -2.4%
Liquor Profits	34.5	35.8	3.8%	2.4%	59.0	61.8	4.7%
Interest	6.9	12.7	84.1%	700.0%	9.7	10.4	7.4%
Fees	45.4	50.5	11.2%	18.9%	72.3	72.5	0.3%
Judicial Revenue	33.8	36.3	7.4%	24.6%	59.2	60.9	2.9%
Miscellaneous Receipts	46.3	33.8	-27.0%	16.7%	65.1	28.4	-56.3%
Racing and Gaming Receipts	60.0	60.0	0.0%	0.0%	60.0	60.0	0.0%
 TOTAL GROSS RECEIPTS	 \$ 3,552.1	 \$ 3,640.0	 2.5%	 1.0%	 \$ 5,568.8	 \$ 5,650.3	 1.5%